

~~CONFIDENTIAL~~***DOC Exempt Letter In EUR File***SUMMARY

Point 1. Prepare an analysis of the trade between the U.S. and Soviet bloc countries with the exception of Poland for the purpose of determining the impact of U.S. and CoCom trade controls on such trade.

A. U. S. Exports to Soviet Bloc: Dropped from ~~\$22~~ million in 1948 to ~~\$8~~ million in 1952, thereafter rising to \$13 million in 1957 primarily as result of U.S. export controls. 1948 exports composed principally of metals and manufactures, machinery and vehicles which along with chemicals, particularly chemical plant and technology, are again predominant.

B. U. S. Imports from Soviet Bloc: Dropped from ~~\$22~~ million in 1948 to \$28.9 million in 1952 rising from \$20.4 million in 1953 to \$38.4 million in 1956, primarily caused by Russian retaliation, Korean War and other reasons. Import decrease primarily accounted for by manganese, chromium and fur. Recent increase primarily benzene, and ~~inexplicable~~ animal products, the latter of which was an important item in 1947-48 imports.

C. Impact of Controls on U.S. Trade with Soviet Bloc: During period 1948-1950 impact was modest because of relatively liberal licensing policy. Drop in imports assumed to be in retaliation for U.S. export controls.

During 1950-1958 controls over exports of U.S. industry were of some significance because of more stringent controls in face of increased Soviet demands. U.S. denial policy remained more extensive than other Free World countries thus making Free World non-U.S. production available to Bloc but ~~which~~ ^{for} U.S. could have competed ~~successfully~~ on basis of quality and availability. Increase in imports due primarily to benzene purchases from U.S.S.R.

D. Future Prospects for U.S. Trade with Soviet Bloc: Will depend on (1) the character of U.S. trade control objectives; (2) the need of the Soviet bloc

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for U. S. exports (extensive in field of technology, plant and materials in electronics, metals, communications, metal rolling mills, chemical plant processes, iron ore processing and advanced refrigeration equipment); (3) ~~ability~~ ^{potential} of Soviet bloc to finance U.S. exports (estimated ^{potential} \$150 to \$200 million per year within next several years); (4) level and scope of multilateral controls; (5) level and scope of U.S. unilateral export controls; and (6) availability of alternative sources outside United States.

Point 2. As a corollary to Point 1. above analyze the effectiveness of U.S. unilateral controls in the light of current U. S. Economic Defense Policy.

A. U.S. Control Objectives. Deny or limit the flow to the Soviet bloc of goods, technology and services where such action would significantly retard or limit the growth of the Soviet bloc's war potential with regard to both its direct military machine and the industrial base to support and advance its military machine. This objective implies a selective control concept but could ^{alternative} include (a) the institution of a total embargo or (b) a broadening to include selective measures designed to restrict or retard bloc ability to expand and/or intensify economic penetration and warfare measures against the Free World.

B. Effectiveness of U.S. Export Controls.

1. U. S. Unilateral Controls

(a) Items over which U.S. export controls deemed effective: ^{With} ~~Except~~ in the case of technical data (discussed later) U.S. unilateral controls in this area are effective in achieving U.S. objectives.

(b) Items other than B.1. under presumption for denial: Effectiveness questionable and derived mainly from moral, political or psychological reasons.

(c) Items requiring license but under presumption for approval: Effectiveness questionable and generally non-existent but procedure deemed valuable

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in terms of both security and foreign policy considerations since it provides administrative leeway for changes in policy and opportunity for qualitative or quantitative determinations. (This category plus the one immediately following covers 90% or more of the total trade areas).

(d) Items under General License: No policy objective considered possible of attainment through control of these items.

(e) Technical Data: Under existing licensing policies the technical data under denial presumption covers a relatively narrow field - principally related to items or commodities for which there is an export denial policy. This area is under active study and a more extensive technical data denial policy covering the ~~translation~~^{application} of laboratory and pilot plant developments to commercial plant and process operation would undoubtedly increase the effectiveness, particularly with respect to certain industrial areas in which it is known the block is significantly deficient.

C. Measures to Increase Effectiveness of U.S. Unilateral Controls:

1. Anti-frustration measures. Measures designed to restrict the ability of other Free World countries - through the utilization of U.S. materials, equipment, technology or services - to frustrate U.S. unilateral controls ~~will~~ ^{could} in many cases increase the effectiveness of U.S. unilateral controls. No problem foreseen in application of usual measures taken toward Free World countries on a case-by-case basis providing for consideration of foreign policy and other relevant factors.

~~coincidentally, The Department of State would oppose extreme actions.~~

2. Treasury Transaction Controls. Application of Treasury transaction controls to U.S. unilateral controlled items would undoubtedly increase the effectiveness of those controls but widespread application would raise serious domestic and foreign policy problems. Consideration might be given to (a) mandatory application of such controls for transactions of U.S. firms domiciled in the U.S.,

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(b) case-by-case consideration of other transactions involving U.S. firms or their subsidiaries taking into account all relevant factors. State opposes any expansion of such controls on the basis of raising important foreign relations problems and Treasury would oppose expansion where effectiveness is not clearly demonstrable.

D. Violations of U.S. Export Controls. Diversions ~~and transhipments~~ of U.S. embargoed commodities to Soviet bloc destinations have been increasing. The principal areas are electronic testing and measuring equipment, electronic components, research laboratory equipment and corona materials.

Point 3. Analyze and present for policy consideration the trend within the CoCom in support of economic defense:

(a) Is support for economic defense as presently limited by the CoCom lists strong enough to maintain the status quo or is there a prospect for further weakening?

(b) Are the present CoCom controls adequate to achieve a substantial impact on the military potential of the Soviet Union (Defense Department's judgment seemed to be to the contrary)?

Support for the maintenance of a multilateral trade control system and list exists because of (1) impact on the Sino-Soviet bloc; (2) an operating organization ~~changing~~ quickly able to adjust controls in the event of ~~worsening~~ international situations, and (3) commercial advantage ~~accruing to~~ ~~other than the U.S.~~ because of U.S. more restrictive licensing policies. No planned determined attack on existing CoCom controls foreseen in the near future although undoubtedly adjustments, both upward and downward, will be proposed in 1959 list review.

The 1958 relaxation of CoCom controls constituted a marked weakening of the impact on the military potential of the Soviet bloc when viewed on an item by item

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basis. However, the marginal impact of the overall control system in delaying or deterring the buildup of the Sino-Soviet bloc war potential was not materially reduced by the recent relaxation and, on balance, is considered to still be an effective deterrent.

Point 4. Finally this Task Group should present for consideration conclusions as to the implementation of current NSC policy in achieving the current policy's stated objectives.

On the whole, the current economic defense policy has been appropriately implemented ^{Recognizing its voluntary character leads to divergent views.} ~~when recognizing the limitations to achieve the policy objectives.~~

In some minor respects, namely, the coordination of actions and measures of a widely diverse nature involving many agencies and departments, as well as American business, might be given greater attention, through ~~the establishment of a regularly constituted inter-Government group to deal with these problems.~~

A second area is the possibility of a closer tie-in of the CoCom to the NATO organization wherein greater concern from a security ^{view} standpoint and growing concern over Soviet economic warfare and penetration activities is evident.

Greater attention might well be given to the effects of the East-West exchange program upon the achievement of the objectives of the economic defense policy, ~~even though the East-West exchange program itself is not a part of the economic defense policy.~~

Lastly, the more effective control of technical data is an area in which it appears that ~~more effective~~ ^{improved} implementation of the economic defense policy might well be achieved. This, however, is an area which is under active consideration by the Department of Commerce and will shortly be a subject for consideration by its Advisory Committee on Export Policy.

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